



**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

To the Board of Trustees:

We have audited the financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, as of June 30, 2002, and the results of its operation and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2005, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and you should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the financial statements that collectively comprise the Academy's financial statements. The federal awards expenditure schedule presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 16, 2005

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**BALANCE SHEET
AS OF JUNE 30, 2002**

Assets:

Current Assets:

Receivables:

Intergovernmental	\$109,716
Other	4,000
Total Current Assets	<u>113,716</u>

Non-Current Assets:

Fixed Assets (Net of Accumulated Depreciation)	4,288,477
Total Assets	<u><u>4,402,193</u></u>

Liabilities and Equity:

Current Liabilities:

Accounts Payable Overdraft Liability	27,113
Accounts Payable	591,492
Intergovernmental Payable	230,400
Accrued Expenses	38,606
Lines of Credit	47,165
Accrued Payroll	102,382
Capital Leases Payable	6,580
Mortgage Payable	52,305
Loans Payable	7,162
Total Current Liabilities	<u>1,103,205</u>

Non-Current Liabilities:

Contractual Obligations	107,081
Loans Payable	303,607
Capital Leases Payable	10,761
Mortgage Payable	2,626,970
Total Non-Current Liabilities	<u>3,048,419</u>

Equity:

Retained Earnings	<u>250,569</u>
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Total Liabilities and Equity	<u><u>\$4,402,193</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN ACCUMULATED DEFICIT AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2002**

Operating Revenue:

Foundation Payments	\$1,841,099
Other Operating Revenues	<u>85,095</u>
Total Operating Revenues	<u>1,926,194</u>

Operating Expenses:

Salaries	919,922
Fringe Benefits	176,507
Purchased Services	258,833
Materials and Supplies	207,347
Depreciation and Amortization	115,887
Interest Expense	303,979
Occupancy Expense	70,658
Other Operating Expenses	<u>33,457</u>
Total Operating Expenses	<u>2,086,590</u>

Operating Loss (160,396)

Non-Operating Revenue:

Federal and State Grants	391,677
Rental Income	<u>120,000</u>
Total Non-Operating Revenue	<u>511,677</u>

Net Income 351,281

Accumulated Deficit Beginning of the Year as restated, see Note 18 (100,712)

Retained Earnings End of the Year \$250,569

The accompanying notes to the financial statements are an integral part of this statement.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002**

Increase/Decrease in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from State of Ohio	\$1,783,222
Cash Payments to Suppliers for Goods and Services	(800,557)
Cash Payments to Employees for Services	(879,979)
Other Operating Revenues	<u>85,095</u>
Net Cash Provided by Operating Activities	<u>187,781</u>

Cash Flows from Noncapital Financing Activities:

Non-Operating Grants and Contributions Received	281,961
Payments on Lines of Credit	(812)
Borrowings from Officers and Directors	25,772
Repayments to Officers and Directors	(121,522)
Repayments on other loans	<u>(6,994)</u>
Net Cash Provided By Noncapital Financing Activities	<u>178,405</u>

Cash Flows from Capital and Related Financing Activities:

Payments for Capital Acquisitions	(428,810)
Payments for Capital leases	<u>(7,357)</u>
Net Cash Used for Capital and Related financing Activities	<u>(436,167)</u>

Net Decrease in Cash and Cash Equivalents	(69,981)
Cash and Cash Equivalents Beginning of the Year	<u>69,981</u>
Cash and Cash Equivalents End of the Year	<u><u>\$0</u></u>

(Continued)

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

Reconciliation of operating Loss to Net

<u>Cash Used for Operating Activities:</u>	
Operating Loss	(\$160,396)
Adjustments to Reconcile Operating Loss to	
<u>Net Cash Used for Operating Activities:</u>	
Depreciation	115,887
Changes in Assets and Liabilities:	
Increase in Accounts Payable	176,912
Increase in Wages and Benefits	45,815
Decrease in Accrued Expenses	(5,154)
Decrease in Intergovernmental Payable	(12,396)
Increase in Overdraft Liability	27,113
Total Adjustments	<u>232,290</u>
Net Cash Provided by Operating Activities	<u>\$187,781</u>

The accompanying notes to the financial statements are an integral part of this statement.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

1. DESCRIPTION OF THE ACADEMY AND REPORTING ENTITY

Horizon Educational Services Incorporated (HESI) is a non-profit corporation established pursuant to Ohio Rev. Code Chapter 1702. It was granted 501(c)(3) status by the Internal Revenue Service on January 26, 1999. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. HESI created the Horizon Science Academy of Cleveland (the Academy) as permitted under Ohio Revised Code Chapter 3314 to address the needs of students grades seven through twelve. The Academy, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy.

The Academy was approved for operation by the State Board of Education for a period of five years commencing September 1999. The sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to expiration.

The Academy operates under the direction of a five-member Board of Trustees. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board of Trustees controls the Academy's one instructional/support facility staffed by 5 administrative and 30 certified teachers who provide services to 342 students. Two members of the Board of Trustees are also on the Board of Trustees of the Horizon Science Academy of Columbus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles as applied to governmental nonprofit organizations. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Academy's accounting policies are described below.

A. Basis of Presentation

The Academy uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the balance sheet. Equity consists of retained earnings. Operating statements present increases (e.g. revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided in the Academy's contract with its sponsor. The contract between the Academy and its sponsor does not prescribe a budgetary process for the Academy, but does require the preparation of a five year forecast, which is to be updated on an annual basis.

D. Fixed Assets and Depreciation

Fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the dates received. The Academy maintains a capitalization threshold of five hundred dollars per item purchased (See footnote 18). The Academy does not possess any infrastructure.

Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Fixed assets are depreciated using the straight-line method over the following estimated useful lives. Improvements to fixed assets are depreciated over the remaining useful lives of the related fixed assets.

<u>Assets</u>	<u>Years</u>
Building & leasehold improvements	39
Furniture and equipment	10
Computer and electronic equipment	5

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Intergovernmental Revenues

The Academy currently participates in the State Foundation Program, the State Disadvantaged Pupil Impact Aid Program ("DPIA"), and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

The Academy also participates in the Federal Community (charter) Academy Grant Planning and Implementation Sub-Grant through the Ohio Department of Education. Under this program, the Academy received \$150,000 under phase II. Revenue received from this program is recognized as non-operating revenue on the accompanying financial statements.

F. Cash and Cash Equivalents

To improve cash management, all cash received is pooled in a central bank account. For presentation on the balance sheet and statement of cash flows, investments with an original maturity of three months or less are considered cash equivalents.

G. Compensated Absences

Leave earned by employees must be used in the current period. Balances are not carried forward, and, therefore, are not recorded as a liability.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. COMPLIANCE, ACCOUNTABILITY AND FINANCIAL OUTLOOK

The Academy had an outstanding debt of \$357,934, intergovernmental payables in the amount of \$230,400, and accounts payable of \$591,492, in addition to the mortgage as of June 30, 2002.

4. DEPOSITS AND INVESTMENTS

At June 30, 2002, the carrying amount of deposits was (\$27,113) and the bank balance was \$18,750. The total bank balance was federally insured.

5. RECEIVABLES

Receivables at June 30, 2002, consisted of Federal Title funds and state grants. All receivables from Federal and State governments are considered collectable due to the stable condition of the State programs and the current year guarantee of Federal funds.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

6. FIXED ASSETS

A summary of the Academy's fixed assets at June 30, 2002, follows:

Building and Improvements	\$4,411,993
Furniture and Equipment	41,696
Academy Buses	<u>2,848</u>
Subtotal	4,456,537
Less accumulated depreciation	<u>168,060</u>
Net Fixed Assets	<u>\$4,288,477</u>

7. RISK MANAGEMENT

A. Property and Liability

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2002, the Academy contracted with AJ Amer Agency Inc. to provide property and general liability insurance.

Professional liability is protected by Indiana Insurance Company with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate and a \$1,000 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years. The coverage was reduced from \$2,000,000 to \$1,000,000 for a single occurrence and \$5,000,000 to \$3,000,000 in aggregate from the prior year.

B. Workers' Compensation

The Academy pays the State Workers' Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State.

C. Employee Medical

The Academy has contracted with a Medical Mutual through the Council of Smaller Enterprise to provide employee medical/surgical benefits. For fiscal year 2002, the employees' premiums were \$191 for two person coverage, and \$95 for single coverage per employee per month for the first six months. The premiums increased the last six months to \$355 for family, \$254 for two person coverage, and \$127 for single coverage per employee per month.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Academy contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employees Retirement System (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Academy is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; for the year June 30, 2002, 5.46 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Academy's required contribution for pension obligations to SERS for the year ended June 30, 2002 was \$2,408, 42 percent has been contributed for fiscal year 2002. As of June 30, 2002 the Academy owed \$2,906 which represents the amount due from the employer \$1,397 and unpaid employee withholdings of \$1,509. These amounts were included as a liability on the balance sheet.

B. State Teachers Retirement System

The Academy contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Academy is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for the year 2002. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Academy's required contribution for pension obligations to STRS for fiscal year 2002 was \$77,018, 89 percent has been contributed for fiscal year 2002. As of June 30, 2002 the Academy owed \$41,282 which represents the amount due from the employer, \$8,473, and unpaid employee withholdings of \$32,809. This amount was included as a liability on the balance sheet.

C. Social Security System

All employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement/State Teachers Retirement System. As of June 30, 2002, the Academy has three employees or members of the governing board who contribute to Social Security.

9. POSTEMPLOYMENT BENEFITS

The Academy provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

9. POSTEMPLOYMENT BENEFITS (Continued)

For STRS, all benefit recipients are required to pay a portion of health care costs in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Academy, this amount equaled \$36,482 during the year of which \$4,013 was the unpaid contribution.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002 (the latest information available) the balance in the Fund was \$3.011 billion. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.3 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the Academy, the amount to fund health care benefits, including surcharge, equaled \$4,448 for fiscal year 2002 of which \$3,666 was the unpaid contribution.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,496,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.3 million. SERS has approximately 50,253 participants currently receiving health care benefits.

10. BUILDING PURCHASE

Horizon Educational Services Incorporated (HESI) entered into a land contract on November 30, 2000 to purchase a parcel of land containing two buildings. One building is 40,880 square feet and is used for Academy operations. The other building is 10,000 square feet and is presently occupied by Ohio Motorists Association (OMA). The total purchase price was \$2,800,000 at a 10% interest rate payable monthly over a period of twenty years. The first payment was due January 1, 2001. Monthly payments are \$26,490. The OMA currently pays \$10,000 a month rent for the building where they are located. HESI pays the difference between the \$26,490 and the \$10,000 rent paid by the OMA, which is \$16,490. If the OMA fails to pay its rent, HESI is still obligated to pay the entire \$26,490. As of June 30, 2002, the Academy is current on all lease payments.

The current owner of the building may at any time after September 1, 2005 issue a Final Closing Notice, advising HESI of a date not earlier than ninety days after the delivery date of the Final Closing Notice on which the current owner is prepared to transfer title to the premises to HESI in return for payment of the full balance for the purchase price. As of June 30, 2002 the total mortgage payable was \$2,679,275.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

11. CONTINGENCIES

A. Grants

The Academy received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Academy. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Academy at June 30, 2002.

B. Ohio Community School Program

A suit was filed in Franklin County Common Pleas Court on May 14, 2001, alleging that Ohio's Community (i.e. Charter) Schools program violates the State Constitution and State laws. On April 21, 2003, the Court dismissed the counts containing the constitutional claims and stayed the other counts pending appeal on the constitutional issues. The plaintiffs appealed to the Court of Appeals, the issues have been briefed, and arguments were heard on November 18, 2003.

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. This decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a School-funding scheme that is thorough and efficient...".

The Academy is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

13. PURCHASED SERVICES

Purchased Services include the following:

Insurance	\$ 11,711
Professional Services	60,421
Advertising	26,557
Classroom Supplies & Printing	23,363
Equipment Lease & Rental	24,863
Utilities and Telephone	88,238
Other	<u>23,680</u>
Total Purchased Services	<u>\$258,833</u>

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

14. LINES OF CREDIT

The Academy borrowed funds for operations throughout the fiscal period. The following is a summary of that activity:

Notes:	Credit Limit	Balance June 30, 2002
7.75% Key Bank	\$20,000	\$19,161
5.75% National City Bank	30,000	28,004
Total	\$50,000	\$47,165

These lines of credit are in violation of Ohio Rev. Code Section 3314.08 (J), which states all loans must mature no later than the end of the fiscal year.

Principal payments of \$812 were made during fiscal year 2002. Interest payments in the amount of \$3,739 were made during the year. The lines of credit are uncollateralized. These lines of credit are presented on the accompanying financial statements as a current liability.

15. PERSONAL LOANS PAYABLE

The Academy received personal loans from Board Members and Administrators throughout the year to continue operations. There is no interest associated with these loans and repayment is not scheduled. These loans are presented as long term debt on the accompanying financial statements. The Academy will repay these loans when funds are available. These loans are uncollateralized.

These loans are in violation of Ohio Rev. Code Section 3314.08 (J), which states all loans must mature no later than the end of the fiscal year.

16. CAPITAL LOANS PAYABLE

Employees of the Academy, Board Members, and other individuals purchased computers and other furniture and fixtures on behalf of the Academy. The Academy still owes those individuals for these purchases. The loan repayments are not scheduled. These loans are presented as long term debt on the accompanying financial statements. The Academy will repay these loans when funds are available. These loans are uncollateralized.

These loans are in violation of Ohio Rev. Code Section 3314.08 (J), which states all loans must mature no later than the end of the fiscal year.

17. INTERGOVERNMENTAL PAYABLE

The Academy has reported an Intergovernmental Payable on its balance sheet, in the amount of \$230,400. Of this amount, \$45,295 represents an amount due the State Teachers Retirement System and \$6,572 an amount due to the School Employees Retirement System, (See Note 8 and 9). The remaining amount \$178,533 represents a payable by the Horizon Science Academy to the Ohio Department of Education for differences in active full time equivalent (FTE) enrollment and the level of foundation funding for fiscal years 2000, 2001, and 2002 as determined by the Ohio Department of Education.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002
(CONTINUED)**

18. PRIOR PERIOD ADJUSTMENT

The Academy changed its Fixed Asset Policy from a three hundred dollar capitalization threshold to a five hundred dollar threshold per item purchased. The change was made to match policies in effect at similar community schools. The prior years were restated to conform to the new policy.

The restatement of previously capitalized expenditures as operating expenses, the capitalization of previously expensed lease payments, the reduction of depreciation expense, and the recalculation of ending payable and accrued expenses, resulted in a decrease of \$81,732 in Retained Earnings reported at June 30, 2001. The fiscal year 2001 had been previously attempted to be audited with no opinion being rendered.

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**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

Federal Grantor/Pass-Through/Program Title	Pass-Through Entity Number	CFDA Number	Receipts	Expenditures
U.S. Department of Education				
<i>Pass Through the Ohio Department of Education</i>				
Grants to Local Education Agencies - ESEA Title I	133629-C1S1-2002	84.010	\$22,014	\$101,913
	133629-C1S1-2001	84.010	19,480	6,405
	133629-C1S1-2000	84.010	<u>60,996</u>	<u>0</u>
			<u>102,490</u>	<u>108,318</u>
Eisenhower Professional Development Title II	133629-MSS1-2002	84.281	936	177
	133629-MSS1-2002	84.281	1,809	1,296
	133629-MSS1-2002	84.281	<u>1,264</u>	<u>0</u>
			<u>4,009</u>	<u>1,473</u>
Drug Free Grant	133629-DRS1-2002	84.186	412	2,294
	133629-DRS1-2001	84.186	1,278	1,296
	133629-DRS1-2000	84.186	<u>1,410</u>	<u>0</u>
			<u>3,100</u>	<u>3,590</u>
Public Charter School Subsidy	133629-CHS1-2002	84.282	150,000	146,700
	133629-CHS1-2003	84.282	0	146,910
			<u>150,000</u>	<u>293,610</u>
Innovative Education Program Strategies Title VI	133629-C2S1-2001	84.298	618	731
	133629-C2S1-2000	84.298	<u>1,851</u>	<u>0</u>
			<u>2,469</u>	<u>731</u>
Classroom Reduction Grant Title VI-R	133629-CRS1-2002	84.340	1,827	2,417
	133629-CRS1-2001	84.340	2,468	0
	133629-CRS1-2000	84.340	<u>7,922</u>	<u>0</u>
			<u>12,217</u>	<u>2,417</u>
Total Federal Awards Receipts and Expenditures Passed Through the Ohio Department of Education			<u>\$274,285</u>	<u>\$410,139</u>

Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this schedule.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2002**

SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes the activity of the Academy's federal award programs. The Schedule has been prepared on the cash basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

CFDA - Catalog of Federal Domestic Assistance.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

We have audited the financial statements of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) as of and for the year ended June 30, 2002, and have issued our report thereon dated May 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Academy's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-005 through 2002-009.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider reportable conditions items 2002-005 through 2002-008 to be a material weakness. In a separate letter to the Academy's management dated May 16, 2005, we reported other matters involving the internal control over financial reporting we did not deem to be reportable conditions.

Compliance

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance and other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2002-001 through 2002-004. In a separate letter to the Academy's management dated May 16, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, and federal awarding agencies, and pass-through entities. It is for anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 16, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Horizon Science Academy of Cleveland
Cuyahoga County
6000 South Marginal Road
Cleveland, Ohio 44103

Compliance

We have audited the compliance of the Horizon Science Academy of Cleveland, Cuyahoga County, Ohio, (the Academy) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2002. The summary of auditor's results section of the accompanying schedule of findings and questioned costs identified the Academy's major federal programs. The Academy's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on Academy's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Academy's compliance with those requirements.

As described in items 2002-011 through 2002-013, the Academy did not comply with the requirements regarding eligibility, matching level of effort, earmarking, and allowable costs/costs principles applying to its Title I federal program. Compliance with those requirements is necessary, in our opinion, for the Academy to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Horizon Science Academy of Cleveland complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings as item 2002-010.

Internal Control Over Compliance

The Academy's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Academy's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 16, 2005

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FISCAL YEAR END JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under §.510?	Yes
(d)(1)(vii)	Major Programs (list):	Public Charter School Subsidy - 84.282 and Title I - 84.010
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
(Continued)**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2002-001
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Findings for Recovery

During fiscal year 2002, the Horizon Science Academy of Cleveland issued payments to the Immigration and Naturalization Service for the purpose of assisting certain individuals which were not employees with the cost of immigration and naturalization applications. There is no authority that allowed these payments to be made, nor does the nature of the expense relate to the Academy's normal activities and operations.

The Academy issued payments to the Immigration and Naturalization Service for Birsen Duman and Cigdem Ertekin, wives of the current and former directors of the Academy. Neither woman was an employee of the Academy. In accordance with Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Sedat Duman, Director, and his spouse, jointly and severally in the amount of \$140 and Tanner Ertekin, Director, and his spouse, jointly and severally in the amount of \$110.

The above Findings for Recovery total \$250.

We recommend the Board develop and implement a policy addressing this type of expenditure and the use of the public funds of the Academy. On December 17, 2002, the Board of Trustees passed Resolution number 2002-12-17-04 in which the Board directed that INS fees and Legal Fees not be redeemed from the School Budget anymore.

FINDING NUMBER	2002-002
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Financial Report Filing

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year, within one hundred and fifty days for entities reporting on a GAAP basis. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. In part, this report shall contain the following:

- Amount of collections and receipts, and accounts due from each source; and,
- Amount of expenditures for each purpose.

Ohio Administrative Code Section 117-2-03 (B) further clarifies the filing requirements of Ohio Rev. Code Section 117.38. This section requires that all school districts, including educational service centers and community schools, shall file their annual financial reports pursuant to generally accepted accounting principles. Generally accepted accounting principles (GAAP) require the following:

- Balance sheet as prescribed by GAAP standards;
- Income and expense statement as prescribed by GAAP;
- Cash flow statement as prescribed by GAAP; and,
- Notes to the financial statements as prescribed by GAAP.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
(Continued)**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2002-002
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Financial Report Filing (Continued)

Pursuant to Ohio Revised Code Section 117.38, the Academy may be fined and subject to various other administrative remedies for its failure to file the required financial report. The Academy filed its financial statements for the year ended June 30, 2002 on July 28, 2003. The financial statements as filed were incomplete and inaccurate. Numerous adjustments were necessary due to incomplete financial records being maintained by the Academy. Amounts reported as fixed assets were incorrectly reported, accounts payable were understated, salaries were understated and benefits were overstated.

We recommend the Academy organize its financial recordkeeping, develop tickler files as a reminder of filing dates, and take all other steps necessary to file its financial statements within the prescribed time period. If these financial statements are not filed within the prescribed timetable, the Academy may be assessed a late filing penalty.

FINDING NUMBER	2002-003
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Uniform School Accounting System (USAS)

Ohio Revised Code Section 3314.03(A)(8) provides that each contract entered into under section 3314.03 of the Revised Code between a sponsor and the governing authority of a community school shall specify the financial records of the school be maintained in the same manner as are the financial records of a school district. Each community school is required to follow the Uniform School Accounting System (USAS) as prescribed in Sections 117-2-02 to 117-2-21 of the Ohio Administrative Code.

The Academy failed to maintain financial records in the prescribed format.

We recommend the Academy review the agreed upon requirements of the Community School Contract. The above noted sections of the Ohio Revised Code and the Ohio Administrative Code which are part of the contract are very specific as to this requirement. The Academy is statutorily and contractually obligated to implement and use this system.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
(Continued)**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2002-004
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Personal Loans

Prior to April 8, 2003, Ohio Revised Code Section 3314.08(J)(1)(a) required that all debt of the School must mature no later than the end of the fiscal year in which such money was borrowed. Ohio Revised Code Section 3314.08(J), among others, was amended by Ohio House Bill 364 of the 124th General Assembly, effective on April 8, 2003. This amendment removed the requirement from Ohio Revised Code Section 3314.08(J) that all debt of the Academy mature no later than the end of the fiscal year in which such money was borrowed.

As stated in the Bill Analysis for Ohio House Bill 364, "Under prior law, a community school could borrow for "necessary and actual expenses" against its expected state payments for up to one fiscal year. In addition, a school could borrow money for up to 15 years to participate in the Community School Classroom Facilities Loan Guarantee Program (see "**Changes to the Community School Classroom Facilities Loan Guarantee Program**," below). The act permits a school to borrow against expected state payments for an unspecified term and it permits borrowing for up to 15 years for *any* facilities acquisition. However, the act explicitly states that, with the exception of loan guarantees issued under the Classroom Facilities Loan Guarantee Program, the State of Ohio is not liable for debts incurred by the community schools."

The Academy received personal loans from board members and administrators throughout the year to continue operations. Also, the Academy borrowed funds from financial institutions in the form of lines of credit which were contrary to this Section of the Revised Code as of June 30, 2002.

We recommend the Academy review this and other Revised Code sections applicable to the community school and be vigilant in the application of the requirements.

FINDING NUMBER	2002-005
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Checks Made Out to Cash

On February 19, 2002, the Academy prepared a check payable to cash in repayment of a loan made to the Academy by a former Board member in the amount of \$25,005. In addition, the Academy issued three international wire transfers, to Istanbul, Turkey, in the total amount of \$36,030 in repayment of the same loan made to the Academy by the same Board member.

Although the payments were made to reduce a loan, the method of payment was questionable. The practice of issuing checks to cash should be discouraged and issuing international wire transfers for payments to satisfy a loan received from an individual who resides in the United States should be discontinued.

We recommend the Board consider approving a policy addressing these issues.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
(Continued)**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2002-006
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Developing and Implementing an Effective Monitoring Control System

Monitoring controls are comprised of regular management and supervisory activities established to oversee whether management's objectives are being achieved. Effective monitoring controls assist management in assessing the quality of internal control performance over time. This process involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions. Monitoring controls should assist management in identifying unexpected results and/or possible misstatements.

Some effective monitoring controls include:

- Regular review of monthly financial statements;
- Review of revenues and expenses with independently accumulated information (budgets, past performances, peer group representatives, etc.);
- Review of large or unusual transactions;
- Identification of unusual fluctuations;
- Review of items which have been outstanding for extended periods of time (outstanding check listing for payroll and non payroll transactions);
- Monitoring compliance with grant agreements;
- Ensuring that an adequate segregation of duties exists; and,
- Review of monthly bank reconciliations by someone independent of their preparation.

The lack of effective monitoring controls could lead to the misallocation or misstatement of Academy funds, expenditure of funds contrary to the directives of the governing board, non-compliance with federal or state laws or regulations, which could result in a loss of funding from these sources, and errors or irregularities occurring in financial transactions affecting the bank reconciliations which go undetected.

We recommend that management prepare monthly financial statements and submit them to the Board at each regularly scheduled meeting. The Board should then review these financial statements and when satisfied as to their accuracy approve them through the minute records. In addition, management should ensure that any reports required by the grantor agencies, per the terms of grant agreements, are completed accurately and filed with the respective grantor agencies in a timely manner. Management should also ensure that proper segregation of duties exists, including an independent review of the monthly bank reconciliations.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
(Continued)**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2002-007
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Development and Implementation of Purchasing Cycle Controls

The Academy does not require written authorization prior to a purchase being initiated. In addition, verbal authorizations obtained from management are not regularly documented (e.g. as part of the minutes). The Academy does require the use of payment record forms for payment of goods and services. We noted that 46 out of 52 applicable transactions did not have the required payment record form filed. Formal purchase requisitions, purchase orders, or tally sheets were not utilized and there was no process in place to match invoices, purchase orders, tally sheets and checks prior to making payment. Monthly financial statements were not prepared during the year.

We recommend the Academy utilize purchase requisitions and/or purchase orders along with the payment record and obtain proper authorization before committing school funds. Academy personnel should provide written acknowledgment when goods and services are received. Management should compare invoices, purchase orders, and receiving acknowledgments prior to authorizing payment. Board approval of monthly financial statements and the implementation of an accounting package would provide the necessary financial information to allow the Academy to make informed financial decisions.

FINDING NUMBER	2002-008
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Development and Implementation of Payroll Processing Procedures

Procedures for payroll disbursements should include, but are not limited to:

- Approval by the Board of Trustees of all pay rates;
- Comparison of all employees' gross wages paid with the approved pay rates as documented in employee contracts; and,
- Approval and tracking of sick time usage and balances for each employee.

We noted the Board approved employee salaries in the beginning of the fiscal year through a resolution. However, Board approval of salaries of employees hired during the fiscal year could not be located. We noted that out of 44 employees tested 16 did not have evidence of Board approval of their contract amount or in those instances where approval was granted at the beginning of the year, the amount recorded on the contract was greater than the amount approved by the Board. This amounted to the Academy paying salaries/wages of \$176,027 that were not approved by the Board.

The Board should formally approve employment contracts or pay scales for all employees. Without this approval, it is possible that employees could be paid amounts which were not in accordance with the direction of the Board. Also, we recommend the Board monitor the amounts paid to employees.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
(Continued)**

2. FINDINGS RELATED TO FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER	2002-009
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Fixed Assets

We noted the following control weaknesses over fixed assets:

- A fixed asset accounting system, which maintains a complete fixed asset listing by location, with tag or other identification numbers and other pertinent information had not been developed;
- The Academy had not developed and implemented procedures to record assets as additions when purchased and deletions when disposed of through the year;
- The Agency did not have a listing of fixed assets purchased with federal funds to ensure that items purchased with federal funds are used for that specific purpose; and,
- The hand written listing of fixed assets included items which did not meet the capitalization threshold.

Failure to prepare timely reports or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and/or misstatement of recorded amounts on the financial statements.

To maintain adequate safeguards over fixed assets and to reduce the risk that the Academy's assets may be misstated, we recommend management develop and implement procedures to be performed throughout the year for the recording and updating of fixed assets, including an individual listing of items purchased with federal funds. These procedures should include tagging all fixed assets meeting the capitalization threshold. Further, addition and disposal forms should be completed and approved by management when assets are acquired or retired. This information should then be entered into the fixed asset accounting system and include such information as the tag number, location of the asset, description of the item, cost, acquisition date, and any other pertinent information. Periodic physical inventories should be performed, and the fixed assets listed on the accounting system should be compared to the items on hand and any discrepancies should be investigated.

FINDING NUMBER	2002-010
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Federal Compliance

OMB Circular A-133 Section 300(e) provides that the auditee is responsible for appropriate submission of the audit reports to the appropriate government officials and organizations. OMB Circular A-133 Section 320(a) further provides that the audit report and data collection form must be submitted no later than 30 days after the reports are received from the auditors but no later than nine months after the end of the audit period unless a longer period is agreed upon in advance by the cognizant or oversight agency.

The Academy failed to make the appropriate notifications when it became apparent that the audit report and data collection form would not be submitted within the prescribed time schedule.

We recommend diligent care be taken to ensure proper submission of audit report filings or notification to the oversight agency.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Title 1

Total Questioned Costs \$108,318

Finding Number	2002-011
CFDA Title and Number	Grants to Local Education Agencies – ESEA Title I 84.010
Federal Award Number / Year	133629/2002
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

Eligibility

Section 1115 of ESEA (20 USC 6315 (b) (1) (B)) provides that eligible children are children identified by the School as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards on the basis of multiple, educationally related, objective criteria established by the local educational agency and supplemented by the School, except that children from preschool through grade two shall be selected solely on the basis of such criteria as teacher judgment, interviews with parents, and developmentally appropriate measures.

The Governing Board had not adopted eligibility criteria, policies and/or procedures to define the objectives of the Academy in the application of the Title 1 program. Also, during fiscal year 2002 student eligibility was determined based on teacher recommendations, grade point average, and proficiency tests performed the prior year. We selected 25 students for testing and noted that 14 students had achieved grades of A, B, or C during the period when program eligibility was determined. In addition, we reviewed the teacher recommendations, on file, for the program and noted inconsistencies with the Academy's records.

We recommend the Governing Board establish guidelines for the administration of this program, develop policies and procedures to ensure that only those students who are eligible for the program are identified, there be strict adherence to these guidelines and the Governing Board perform an independent review of the procedures placed in operation.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2002-012
CFDA Title and Number	Grants to Local Education Agencies – ESEA Title I 84.010
Federal Award Number / Year	133629/2002
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

Matching, Level of Effort, Earmarking

Part A of Section 1120A(b) (20 USC 6322(b)) and Part C of Section 1304(c)(2) (20 USC 6394(c)(2)) provides that a State educational agency or local educational agency shall use Federal funds received under this part only to supplement the funds that would, in the absence of such Federal funds, be made available from non-Federal sources for the education of pupils participating in programs assisted under this part, and not to supplant such funds.

During our review of the Title 1 expenditures we noted the following:

- Teachers contracts did not identify individuals as Title 1 instructors nor was there any language in the contract to indicate that they were paid supplemental amounts for work with the Title 1 students;
- Students identified, by the Academy, as Title 1 eligible were mainstreamed in non-Title 1 classrooms; and,
- A total of \$80,461 in salaries charged to the Title 1 program was paid to teachers who had classrooms with mainstreamed Title 1 students.

We recommend the Board of Trustees and Academy management review the above noted Sections of the United States Code and place these provisions in practice for the Title 1 program. This entire program had questioned cost on page 30.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY
FOR THE YEAR ENDED JUNE 30, 2002**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 §.505
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2002-013
CFDA Title and Number	Grants to Local Education Agencies – ESEA Title I 84.010
Federal Award Number / Year	133629/2002
Federal Agency	U. S. Department of Education
Pass Through Agency	Ohio Department of Education

Allowable Costs/Cost Principles

OMB cost principles circular A-87 prescribes the cost accounting policies associated with the administration of Federal awards by local governments. The cost principles applicable to a non-Federal entity must apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal Government or indirectly through a pass through entity. The general criteria affecting the allowability of costs under Federal awards are:

- Costs must be reasonable and necessary for the performance and administration of Federal awards;
- Costs must be allocable to the Federal awards under the provisions of OMB's cost principle circular A-87. A cost is allocable to a particular cost objective if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received;
- Costs must conform to any limitations or exclusions set forth in the circulars, Federal laws, State laws, or local laws, sponsored agreements or other governing regulations as to types or amounts of cost items;
- Costs must be net of all applicable credits that result from transactions that reduce or offset direct or indirect costs; and,
- Costs must be given consistent treatment through application of accounting principles appropriate to the circumstances.

While performing our testing procedures of non-payroll Title 1 expenditures we noted the following charges to the program:

- \$2,500 was charged for the Academy's web page data base design;
- \$500 was charged for bulk postage with no indication of the purpose of the mailing;
- \$19,343 was paid for equipment purchased which was not identified in the records as being purchased with Title 1 funds;
- \$731 charged for supplies which did not promote the Title 1 program, (such as physical education, science and art classes);

We recommend the Board of Trustees and the management of the Academy review the provisions of the Title 1 program in relation to the allowability of costs charged and take whatever steps are necessary to adhere to the provisions of the program. This entire program had questioned cost on page 30.

**HORIZON SCIENCE ACADEMY OF CLEVELAND
CUYAHOGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Plan Taken; or Finding No Longer Valid; Explain:
2001-001	Financial Report Filing	No	Not Corrected - Reissued as 2002-002
2001-002	Personal Loans	No	Not Corrected - Reissued as 2002-004
2001-003	Board Meetings	Partially Corrected	Most Board meeting minutes for fiscal year 2002 were signed as required.
2001-004	Uniform Accounting System	No	Not Corrected – Reissued as 2002-003
2001-005	Accurate Balances as of Balance Sheet Date	Yes	No longer a valid comment –documentation needed was provided to auditor to verify the balance.
2001-006	Condition of Accounting Records	Yes	No longer a valid comment – Comments were issued in the FY 2002 report to address specific shortcomings of the accounting system.
2001-007	Development and Implementation of Purchasing Cycle Controls	No	Partially Corrected – Board approval required for all purchased of \$5,000 or more- reissued as 2002-007
2001-008	Developing and Implementing an Effective Monitoring Control System	No	Not Corrected – Reissued as 2002-006
2001-009	Developing and Implementation of Payroll Processing Procedures	No	Not Corrected – Reissued as 2002-008
2001-010	Fixed Assets	No	Not Corrected – Reissued as 2002-009
2001-011	Establishing an Audit Committee	Yes	No Longer a Valid Comment



**Auditor of State
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HORIZON SCIENCE ACADEMY OF CLEVELAND

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 28, 2005**